

Audit



Report

FY 1997 DOD SUPERFUND FINANCIAL TRANSACTIONS

Report Number 98-200

September 16, 1998

Office of the Inspector General
Department of Defense

Additional Copies

To obtain additional copies of this audit report, contact the Secondary Reports Distribution Unit of the Analysis, Planning, and Technical Support Directorate at (703) 604-8937 (DSN 664-8937) or FAX (703) 604-8932 or visit the Inspector General, DoD, Home Page at: WWW.DODIG.OSD.MIL.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Planning and Coordination Branch of the Analysis, Planning, and Technical Support Directorate at (703) 604-8908 (DSN 664-8908) or FAX (703) 604-8932. Ideas and requests can also be mailed to:

OAIG-AUD (ATTN: APTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

Defense Hotline

To report fraud, waste or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@dodig.osd.mil; or by writing to the Defense Hotline, The Pentagon, Washington, DC 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

AAA
CEFMS
EPA

Army Audit Agency
Corps of Engineers Financial Management System
Environmental Protection Agency



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

September 16, 1998

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on FY 1997 DoD Superfund Financial Transactions
(Report No. 98-200)

We are providing this audit report for information and use. We performed this audit to comply with the Superfund Amendments and Reauthorization Act of 1986. The Act requires an annual audit of Superfund financial transactions. Because this report contains no findings or recommendations, no written comments were required, and none were received.

We appreciate the courtesies extended to the audit staff. Questions on this audit should be directed to Mr. James L. Kornides at (614) 751-1400, extension 11, or Mr. John K. Issel at (614) 751-1400, extension 12, or e-mail Kornides@DODIG.OSD.MIL or JIssel@DODIG.OSD.MIL. See Appendix C for the report distribution. The audit team members are listed inside the back cover.

David Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 98-200
(Project No. 8FJ-9007)

September 16, 1998

FY 1997 DoD Superfund Financial Transactions

Executive Summary

Introduction. Annual audits of Superfund financial transactions are required by the Superfund Amendments and Reauthorization Act of 1986. The Environmental Protection Agency manages the Superfund, which is a trust fund that Congress established to respond to hazardous waste emergencies and fund the cleanup of hazardous waste. The Superfund is used to clean up hazardous waste when the responsible party either cannot be identified or will not perform the cleanup work and when a State will not assume responsibility. The U.S. Army Corps of Engineers (the Corps) manages the design and construction of cleanup sites paid for by the Environmental Protection Agency with money from the Superfund. The Environmental Protection Agency issues program authority to the Corps through interagency agreements. During FY 1997, for Superfund projects, the Corps recorded obligations totaling about \$324.4 million, and also recorded disbursements totaling about \$269.2 million against FY 1997 and prior-year obligations.

During FY 1997, the Corps implemented a new accounting system, the Corps of Engineers Financial Management System. Therefore, we limited our review to three sites: the Omaha, Nebraska; Kansas City, Missouri; and Mobile, Alabama, Districts of the Corps, and to the Superfund financial transactions recorded in the new accounting system.

Audit Objectives. The overall audit objective was to determine whether the Corps properly administered its portion of the Superfund. Specific objectives were to determine whether the Corps supported and accurately recorded obligation and disbursement transactions charged to Superfund projects during FY 1997, and to assess the Corps management control program as it relates to Superfund transactions.

Audit Results. We audited three Corps Districts that use the Corps of Engineers Financial Management System. Those Districts properly supported and accurately recorded the judgmentally selected \$38.2 million of the \$71.4 million in FY 1997 obligation and disbursement transactions for the Superfund. The transactions were processed through the Corps of Engineers Financial Management System. The Omaha, Kansas City, and Mobile Districts had established adequate management controls over the obligation and disbursement of funds.

Management Comments. We provided a draft of this report on August 21, 1998. Because this audit report contains no findings or recommendations, written comments were not required, and none were received. Therefore, we are publishing this report in final form.

Table of Contents

Executive Summary	i
Part I - Audit Results	
Audit Background	2
Audit Objectives	2
Superfund Financial Transactions	3
Part II - Additional Information	
Appendix A. Audit Process	
Scope and Methodology	8
Management Control Program	9
Appendix B. Summary of Prior Coverage	10
Appendix C. Report Distribution	11

Part I - Audit Results

Audit Background

Audit Requirements. Annual audits of Superfund financial transactions are required by Public Law 99-499, the "Superfund Amendments and Reauthorization Act of 1986," Section 111, 100 Stat. 1613, 1644 (1986).

Origin of the Superfund. The Superfund is a trust fund that Congress established to respond to hazardous waste emergencies and fund the cleanup of hazardous waste. The Government uses the Superfund to clean up hazardous waste when the responsible party either cannot be identified or will not perform the cleanup work and when a State will not assume responsibility. The Environmental Protection Agency (EPA), manager of the Superfund, issues program authority to the U.S. Army Corps of Engineers (the Corps) to carry out Superfund work through interagency agreements.

Corps Responsibilities. The Corps was responsible for managing the design and construction of certain sites on the national priority list designated by the EPA. The EPA provided financing from the Superfund Trust Account. The Corps managed cleanup work through its divisions and districts. During FY 1997, for Superfund projects, 46 Corps divisions and districts recorded obligations totaling about \$324.4 million, and also recorded disbursements totaling about \$269.2 million against FY 1997 and prior-year obligations.

The Corps Automated Accounting System. By the end of FY 1997, the Corps implemented a new accounting system, the Corps of Engineers Financial Management System (CEFMS) at 33 of the 46 Corps locations. We reviewed the three Corps Districts with the largest FY 1997 Superfund financial transactions: Omaha, Nebraska; Kansas City, Missouri; and Mobile, Alabama. All Corps offices will complete implementation of the new system during FY 1998, and the new system will serve as the field-level financial management system for all civil, military, and reimbursable activities.

Audit Objectives

The overall audit objective was to determine whether the Corps properly administered its portion of the Superfund. Specific objectives were to determine whether the Corps supported and accurately recorded obligation and disbursement transactions charged to Superfund projects during FY 1997, and to assess the Corps management control program as it relates to Superfund transactions.

Superfund Financial Transactions

We audited three Corps Districts that use the Corps of Engineers Financial Management System (CEFMS). Those districts properly supported and accurately recorded the judgmentally selected \$38.2 million of \$71.4 million in FY 1997 obligation and disbursement transactions for the Superfund. The transactions were processed through CEFMS. The Districts had established adequate management controls over the obligation and disbursement of funds.

Criteria for Superfund Transactions

The criteria for the Superfund are found in the EPA guidance for Federal agencies, "Superfund Financial Management and Recording," January 1989. This guidance requires that all transactions (costs) charged to Superfund projects be authorized and documented so that the EPA can sustain cost claims in court while attempting to recover funds from responsible parties. Specifically, the guidance requires each cleanup site to retain documents. Documentation should include time and attendance records, pay estimates, contractors' invoices with project officers' approval, proof of payment, progress reports, interagency agreements, and worksheets showing calculations of indirect costs.

Administration of the Superfund

The three Corps Districts properly administered FY 1997 Superfund monies for the judgmentally selected transactions. We reviewed obligation and disbursement transactions charged to the Superfund and did not identify material errors.

We reviewed \$38.2 million of \$71.4 million in FY 1997 obligation and disbursement transactions for the Superfund. The transactions were processed through CEFMS at the Omaha, Kansas City, and Mobile Districts of the Corps. Obligations were supported by contracts, contract modifications, and interagency or interdistrict agreements. Disbursements were supported by contracts, contract invoices, receiving reports, and other appropriate documents. The documents supporting the transactions were properly authorized and recorded. For the judgmentally selected transactions reviewed, no errors were disclosed. The Omaha, Kansas City, and Mobile Districts established adequate management

Superfund Financial Transactions

controls over the obligation and disbursements of funds. Specifically, the Districts were able to provide accurate and reliable supporting documentation for all of the \$38.2 million in transactions.

Implementation of CEFMS

During FY 1997, the Corps was implementing a new accounting system, the CEFMS. The new system, which should be fully deployed in FY 1998, is expected to enhance the tracking of funds and reporting of expenditures. Inspector General, DoD, Audit Report No. 96-227, "FY 1995 DoD Superfund Financial Transactions," September 19, 1996, stated that because the previous Corps financial accounting system did not provide unique transaction references for Superfund transactions, those transactions could not be matched to source records with reasonable assurance. The Corps agreed that future audits of Superfund transactions should assess the Superfund transactions accounted for in CEFMS. As of September 30, 1997, 33 Corps sites had implemented the new system. However, of the \$593.6 million in Superfund obligation and disbursement transactions reported in FY 1997, only \$90.8 million (15 percent) were recorded in the new system at those 33 sites. The following table shows the Superfund transactions entered by the Corps in CEFMS.

Table 1. Superfund Transactions in CEFMS as of September 30, 1997

<u>Location</u>	<u>Implementation Date</u>	<u>Superfund Transactions in FY 1997</u>
Omaha	November 1996	\$36,203,811
Mobile	May 1996	19,434,167
Kansas City	November 1996	15,795,738
New Orleans	May 1997	4,986,581
Chicago	April 1997	1,028,547
Detroit	April 1997	2,216,293
27 Other Locations	Various Months, 1997	<u>11,150,791</u>
Total		\$90,815,928

As shown in Table 1, although 33 of the 46 Corps locations that managed Superfund transactions had implemented CEFMS by the end of FY 1997, those locations accounted for a small number of the \$593.6 million in Superfund financial transactions. The remaining 13 Corps locations accounted for a much larger share of Superfund transactions during FY 1997. Table 2, below, shows the Corps locations scheduled to implement CEFMS during FY 1998 and the

Superfund Financial Transactions

value of Superfund transactions accounted for during FY 1997 by the Corps old financial accounting system.

Table 2. FY 1998 CEFMS Implementation and Value of Superfund Transactions

<u>Location</u>	<u>Implementation Date</u>	<u>Superfund Transactions In FY 1997</u>
New England	March 1998	\$145,108,320
New York	March 1998	101,168,798
Baltimore	March 1998	89,749,717
Philadelphia	March 1998	39,509,166
Seattle	December 1997	34,782,397
Remaining Locations	Various Months, 1998	<u>15,342,508</u>
Total		\$425,660,906

As shown in Table 2, most Superfund transactions are managed by Corps locations that were not scheduled to implement CEFMS until FY 1998. Therefore, we did not statistically sample Superfund financial transactions for FY 1997.

Summary

We reviewed selected transactions allocated to Superfund projects at three Corps Districts. Policies, procedures, and controls established by EPA, DoD, and the Corps for the financial management of Superfund obligations and disbursements were effective and no errors were disclosed for the transactions tested. Therefore, we are not making any recommendations.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

We reviewed policies, procedures, and controls of the EPA, DoD, and the Corps for financial management of Superfund obligations and disbursements. During FY 1997, for Superfund projects, the Corps recorded obligations totaling about \$324.4 million and disbursements totaling about \$269.2 million against FY 1997 and prior-year obligations.

We reviewed recorded obligation and disbursement transactions charged to Superfund projects during FY 1997 at three Corps Districts. Specifically, at the Omaha, Kansas City, and Mobile Districts, we judgmentally selected \$29.5 million in obligation transactions and \$8.7 million in disbursement transactions for review. These three Districts were selected for review because they represented \$71.4 million, or 79 percent, of the total Corps obligations and disbursements recorded in CEFMS during FY 1997. As of September 30, 1997, the Corps accounted for \$90.8 million (15 percent) of the Superfund transactions in CEFMS. We did not use statistical sampling procedures for this audit.

DoD-Wide Corporate-Level Government Performance and Results Act (GPRA) Goals. In response to the GPRA, the Department of Defense has established 6 DoD-wide corporate-level performance objectives and 14 goals for meeting these objectives. This report pertains to achievement of the following objectives and goals:

Objective: Fundamentally reengineer DoD and achieve 21st century infrastructure. **Goal:** Reduce costs while maintaining required military capabilities across all DoD mission areas. **(DoD-6)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objectives and goals:

Financial Management Functional Area. Objective: Strengthen Internal Controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. **(FM-5.3)**

General Accounting Office High Risk Area. The General Accounting Office has identified several high-risk areas in the Department of Defense. This report provides coverage of the Financial Management high-risk area.

Use of Computer-Processed Data. We used computer-processed data from the Corps to select the sites to be visited. We also relied on computer-processed data from the Corps to select the audit sample. Although we did not formally assess the reliability of the computer-processed data, the source documentation agreed with the computer-processed data used in our sample. We did not find errors that would preclude the use of the computer-processed data to meet the audit objectives.

Audit Period and Standards. This financial-related audit was performed from November 1997 through July 1998 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Our review included tests of management controls that we considered necessary.

Contacts During the Audit. We visited or contacted individuals or organizations within the DoD and the EPA. Further details are available on request.

Management Control Program

DoD Directive 5010.38, "Management Control Program," and DoD Instruction 5010.40, "Management Control Program Procedures," August 26, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of the Corps management controls over the accounting and recording of Superfund financial transactions. Specifically, we reviewed the management controls established to ensure that Superfund obligation and disbursement transactions were reliable and completely recorded, and that proper documentation was maintained to support the recorded transactions.

Adequacy of Management Controls. The Corps had established management controls over the obligation and disbursement of funds in accordance with applicable laws and regulations. Based on our review of \$38.2 million of obligations and disbursements charged by three Corps Districts to the Superfund during FY 1997, the accounting and administration control system established by the Corps for the Districts provided reasonable assurance that:

- obligations and disbursements complied with applicable laws,
- obligations and disbursements were properly recorded, and
- program functions were efficiently and effectively carried out in accordance with management policy.

Management controls at the Omaha, Kansas City, and Mobile Districts were adequate in that we identified no material management control weaknesses.

Appendix B. Summary of Prior Coverage

Inspector General, DoD, Report No 97-212, "FY 1996 DoD Superfund Financial Transactions," September 4, 1997

Inspector General, DoD, Report No. 96-227, "FY 1995 DoD Superfund Financial Transactions," September 19, 1996

Army Audit Agency (AAA) Report No. NR 95-413, "FY 94 Superfund Financial Transactions," August 31, 1995

AAA Report No. NR 94-422, "FY 93 Superfund Financial Transactions," September 23, 1994

AAA Report No. NR 93-423, "FY 92 Superfund Financial Transactions," September 3, 1993

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army
Commander, Army Corps of Engineers

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
Director, Environmental Protection Agency
Inspector General, Environmental Protection Agency
Technical Information Center, National Security and International Affairs Division,
General Accounting Office

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security